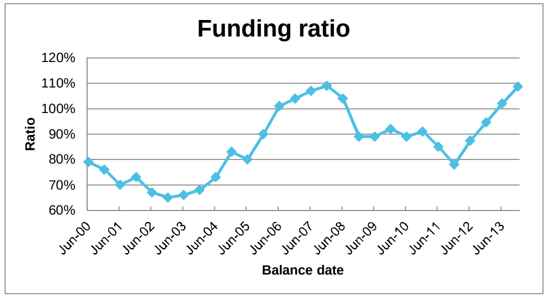
Workers Compensation Nominal Insurer Scheme

Valuation results as at 31 December 2013

SRWS Board Briefing
15 April 2014

pwc

Surplus Result *(balance sheet)*

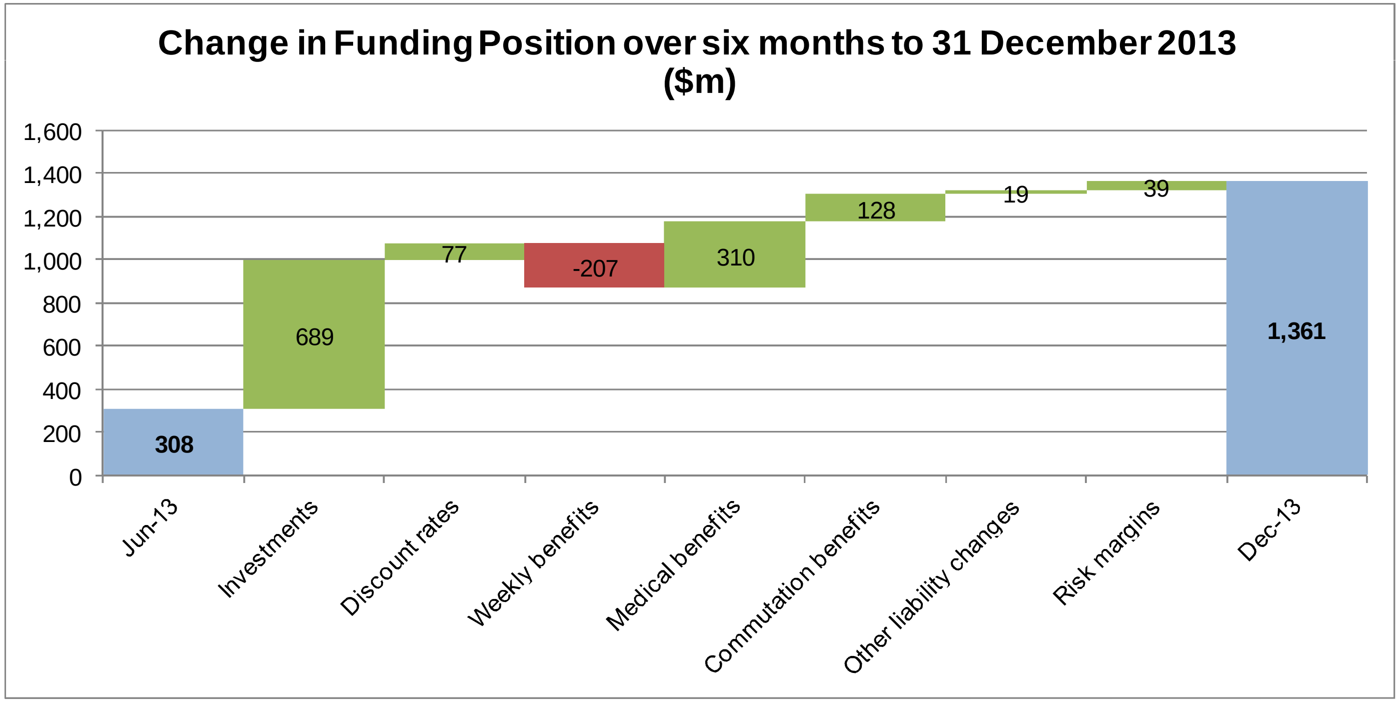


December 2013: $1,361 million surplus

(funding ratio = 109%)

Previous valuation: June 2013 it was $308 million surplus (funding ratio of 102%)

The key drivers of the $1,053m improvement over the last six months are shown below:



What has driven the change in the funding position?

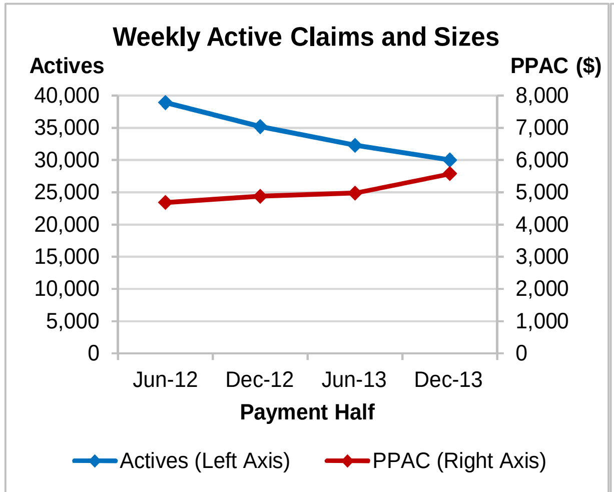
1. **Asset side of the balance sheet** ($689m increase above required)
    - Premium collected higher than required (circa $200m earned over the last six months)
    - Investment returns also much higher than risk free rate of return used to discount the liabilities

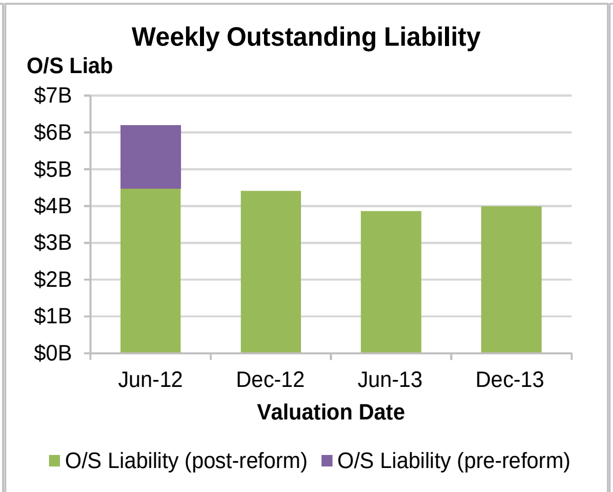
2. **Discount rates**:
    - Increased in the six months to December 2013, reducing the outstanding claims liability by $77m
    - Future inflation and “gap” assumptions left unchanged

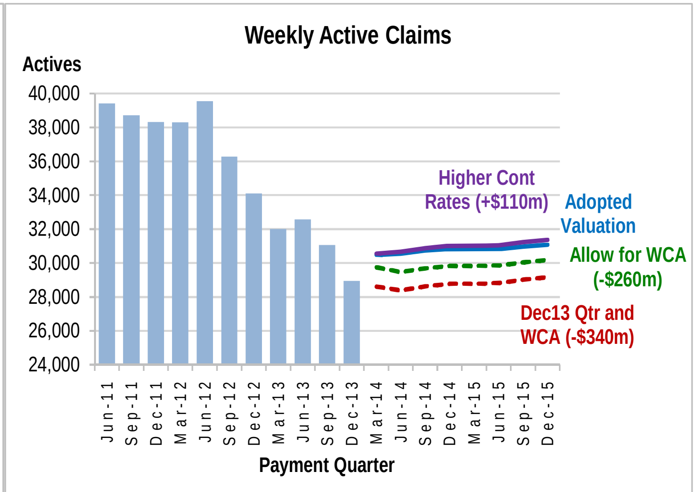
What has driven the change in the funding position? (continued)

3. **Weekly benefits** (Largest payment type $3,997 million, 38% gross liability, $207m increase in liability)

    - Numbers of active claims have continued to decline, but
    - Significantly higher post-reform payment sizes for claims which have completed transition
    - Mix of claims remaining on benefits much more skewed towards those with no work capacity
    - Also reduced commutation liability by $128m, as fewer commutations occurring post reform







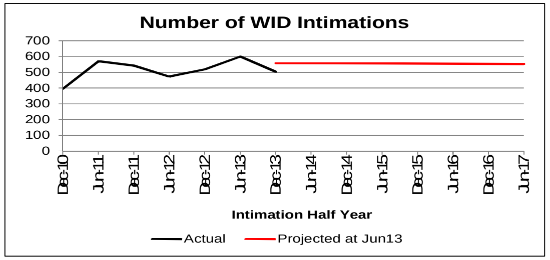
What has driven the change in the funding position? (continued)

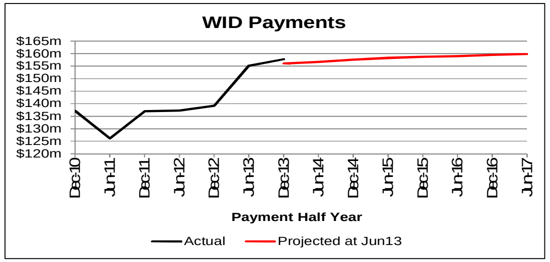
4. **Medical benefits** (2nd largest payment type $2,105 million, 20% gross liability, $310 reduction)
   - Numbers of active claims has continued to decline
   - Average payment size for continuing medical claims is increasing, reflecting skewness of continuing claims
   - Initial application of medical cap commenced from 31 Dec 2013. Little slippage observed, contributed to the liability reduction
   - Large number of claims were identified as catastrophic in last six months (circa 30) – likely to be once off due to case estimate changes. Approximately 280 claims account for 53% of the outstanding medical liability.

What has driven the change in the funding position? (continued)

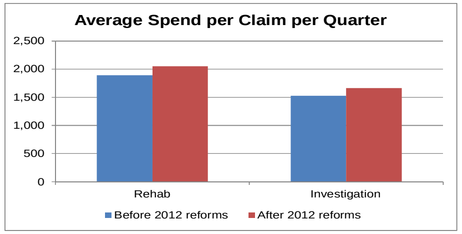
5. Other liability reductions ($19m net reduction):

- Work Injury Damages: experience similar to expected so liability left largely unchanged





- Rehabilitation ($72m reduction) and Investigation ($96m reduction) Rehabilitation and Investigation costs per claim have increased…there are just fewer claims.



- Other payments increased by $60m reflecting persistent higher payment levels in the tail

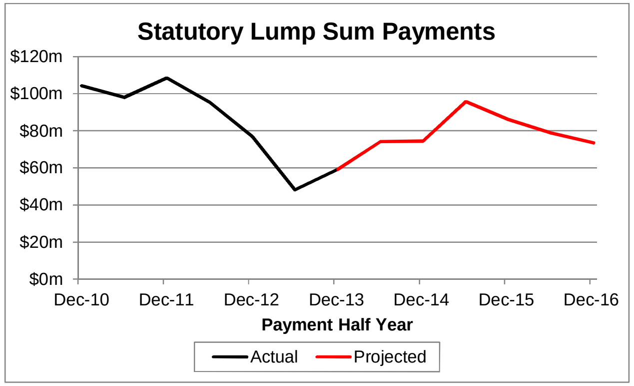
What has driven the change in the funding position? (continued)

• Statutory lump sum payment volumes have reduced due to:

- Introduction of 10% threshold for S66 (permanent impairment) and elimination of S67benefits (pain and suffering)
- Backlog at Workers Compensation Commission and more general payment slow down

• Expect to pick up again as backlog sorts itself out and more Goudappel matters get paid

• Goudappel outstanding liability (including associated legal costs) is $355m



Outstanding claims liability

Estimate of Discounted Outstanding Liability as at 31 December 2013 ($m)

Benefit Type	Actual Outstanding @ 31 December 2013 (based on data as at Dec-13 using new economic and actuarial assumptions)	Impact of Actual vs. Expected experience and change in actuarial assumptions	
	$m	$m	%
Commutations	168.0	-127.8	-76.1%
Weekly	3,996.9	207.3	5.2%
Workplace Injury Damages	1,867.1	2.6	0.1%
Legal Costs	524.9	-1.0	-0.2%
Permanent Injury (Section 66)	563.4	-42.0	-7.4%
Pain and Suffering (Section 67)	193.0	0.5	0.2%
Medical	2,104.9	-309.7	-14.7%
Investigation	411.2	-25.2	-6.1%
Rehabilitation	259.0	-9.2	-3.5%
Death	75.3	-6.3	-8.3%
Other Payments	243.0	59.8	24.6%
Pre-WorkCover Liability	0.9	0.0	-1.5%
Asbestos	111.9	0.7	0.6%
ULIS - Gross	106.0	2.0	1.8%
Total Gross Net Central Estimate	**10,625.5**	**-248.3**	-2.3%
Excess Recoveries	2.1	0.0	-1.9%
Tax Recoveries	97.9	-1.0	-1.0%
Other Recoveries	252.0	0.5	0.2%
ULIS Recoveries	10.6	1.0	9.7%
Total Net Central Estimate Liability (bf CHE)	**10,262.9**	**-248.8**	-2.4%
Claims Handling Expenses (CHE)	1,085.3	8.8	0.8%
Total Net Central Estimate Liability (with CHE)	**11,348.3**	**-239.9**	-2.1%
Risk Margin	1,838.4	-38.9	-2.1%
Total Net Outstanding Claims Liability (with CHE and risk margin)	**13,186.7**	**-278.8**	-2.1%

WID: Experience similar to expected so little change in liability

Commutation: reflecting reduced utilisation post 2012 reforms

Weekly: Large increase in average payment size. Numbers still less than expected.

S66: Revised +/- 10% WPI assumptions

Medical, Rehabilitation, Investigation, Death: better than expected experience

Other: Higher liability in the tail as payments have been persistently high

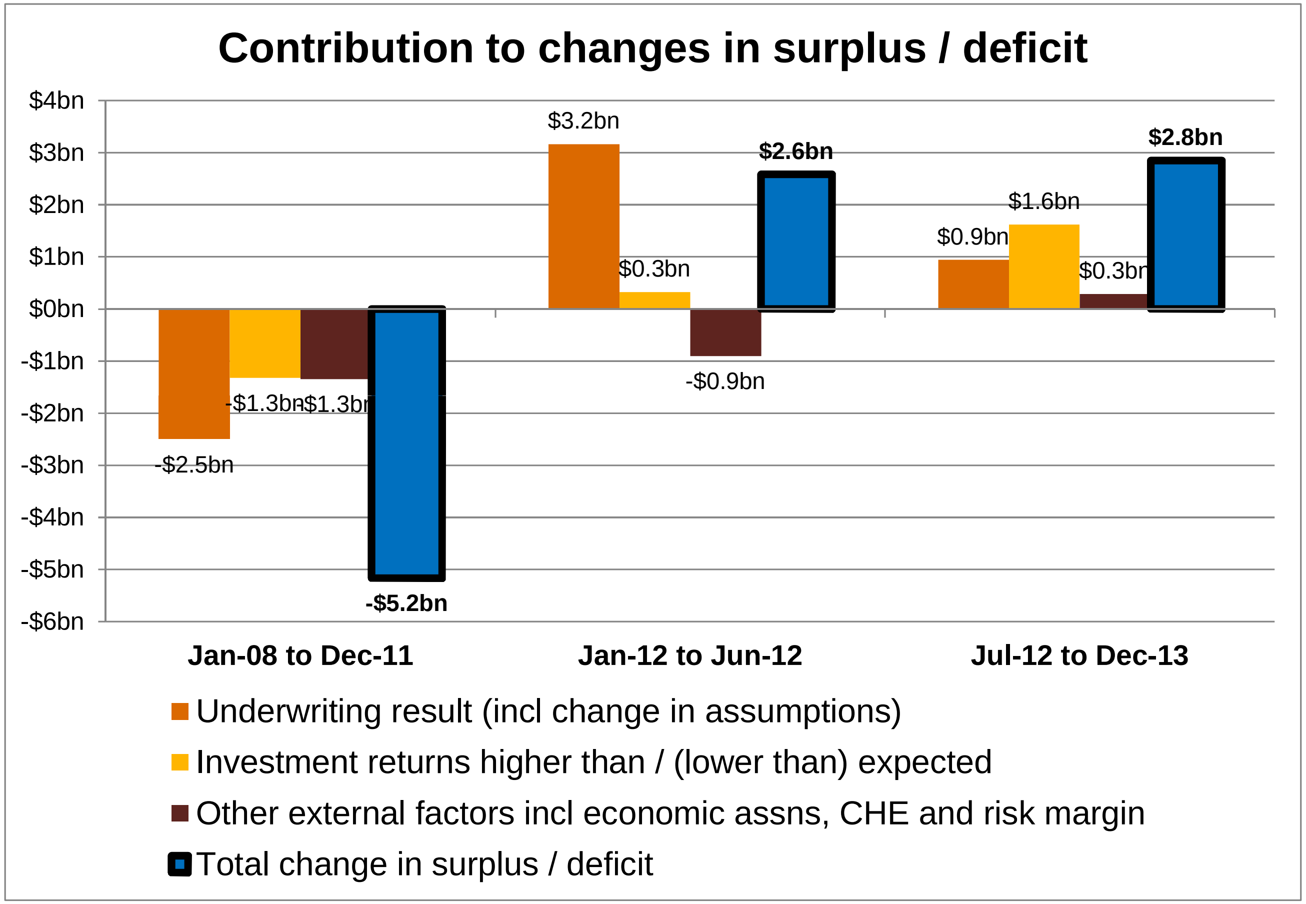
Central estimate, i.e. 50% probability of sufficiency

80% probability of sufficiency

Uncertainty around claims central estimates, not for investment risk

Risk margin of 16.2% of Net Central Estimate

Change in funding position over time



Premium adequacy

Target Collection Rate: 1.47% (= total premium collected divided by total covered wages)

- Premium rates for policies renewing between 30 June 2013 and 30 December 2013 were reduced by between 0% and 15% with the intention of providing a 7.5% reduction in the average premium rate.
- Premium rates for policies renewing between 31 December 2013 and 30 June 2014 were further reduced by between 0% and 7.5% with the intention of providing a 5% reduction in the average premium rate.

Breakeven Premium Rate (= actuarial estimate of required average premium rate to meet expected cost of claims for 2014/15 policy renewal year)

Breakeven Premium rate

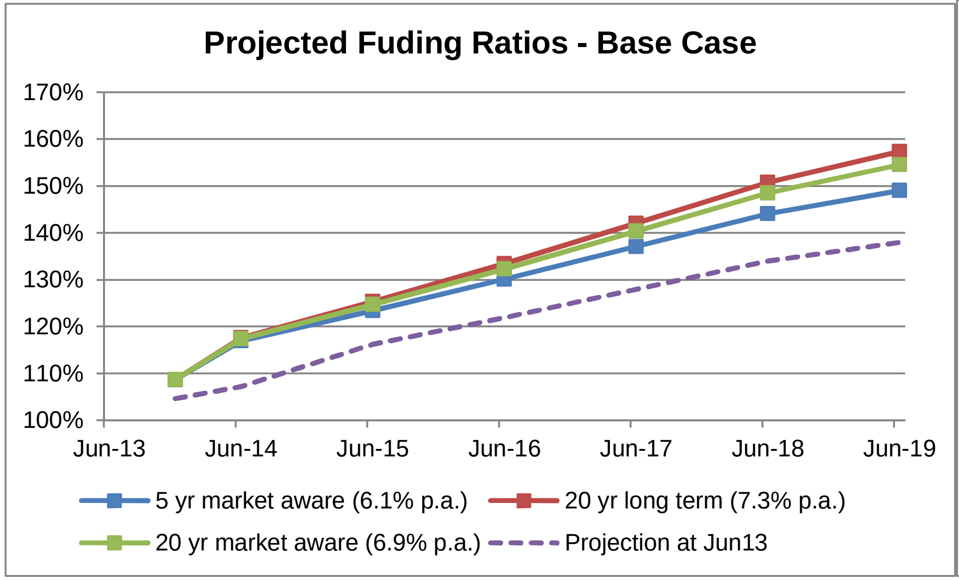
Valn date	Investment Scenario	Investment Return	Pessimistic (+10%)	Base	Optimistic (-10%)
Jun-13	5yr market aware	5.80%	1.49%	1.35%	1.22%
	20yr market aware	6.70%	1.43%	1.30%	1.17%
	20yr long term	7.30%	1.39%	1.27%	1.14%
Dec-13	5yr market aware	6.10%	1.36%	1.23%	1.11%
	20yr market aware	6.90%	1.31%	1.19%	1.08%
	20yr long term	7.30%	1.29%	1.18%	1.06%

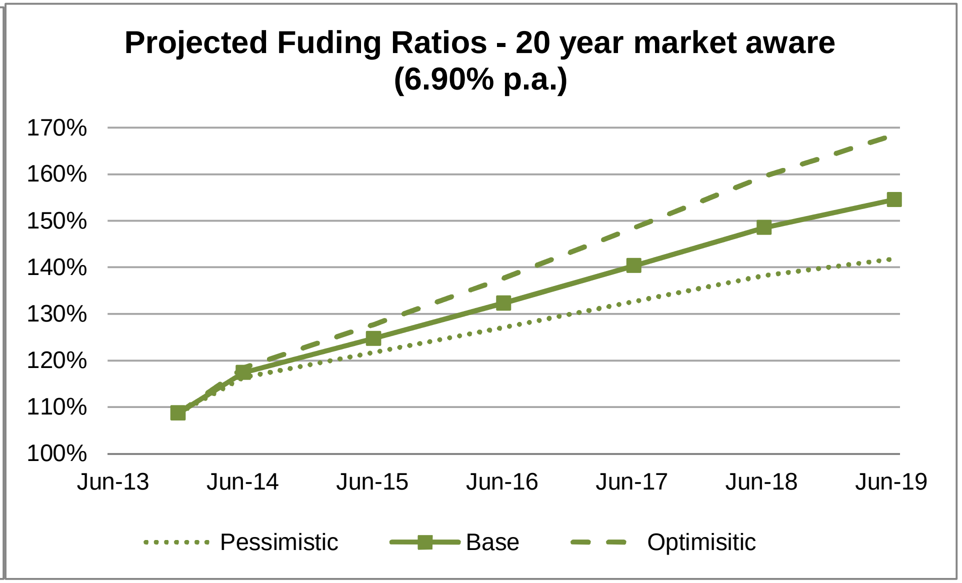
Target Collection Rate

1.47%

Current buffer in premium rates compared to Base scenario is 19% (equivalent to $466m pa)

Solvency projections – base projections

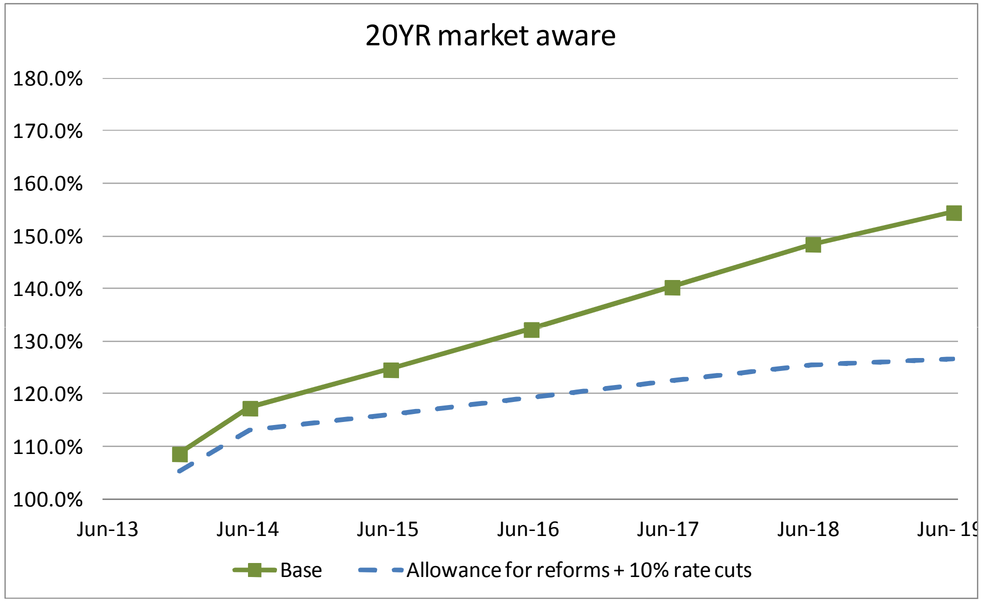




Assumes:

- Premium rates unchanged
- Investment earning as per the scenario (Left hand graph)
- Future claims experience as per the scenario (Right hand graph)

Solvency projections – illustrative benefit enhancement and premium rate cuts



Scenario:
This scenario is indicative of the possible solvency trajectory under the following assumptions:

Benefit enhancements
- Additional once off **~$500m increase in the net outstanding claims liability (including expenses)** resulting from unwinding some elements of the reforms package
- A corresponding **increase in breakeven premium by ~$40m** for future years

Rate reductions
Premium rate reductions of **10% at 30 June 2014** and **30 June 2015**

Risks

So far so good, but......

1. Still **major uncertainty post reform** around what a steady state scheme will look like
    - Weekly benefit payment levels
    - Continuance rates and effectiveness of work capacity decision making
    - Stability in WPI assessments
2. Risk around **new claims** – focus to date has been on existing claims transitioning
3. Potential for **precedents** to undermine reform intent (Goudappel and indexation of weekly benefits for transitional claims are two major precedents already)
4. **Work Injury Damages** remains a key risk
5. **Data coding** challenges are becoming more obvious. This may impact the ability to effectively monitoring and evaluate scheme performance in future
6. Important to keep **Scheme Agents** engaged during RFP process and during the subsequent transition to the next agent contract
7. Risk that positive scheme financial situation may lead to **changes to benefit design or premium rate reductions** which may provide to be unsustainable.

Thank you